PHILIPPINES ECONOMIC WRAP-UP

JULY 15-21, 2000

Summary

Fiscal performance looks ready to substantially fall below the government's predictions of a P62.5 billion deficit, but the government hopes to prevent a repeat of last year's "runaway deficit". The government finally sold its 30% stake in Philippine National Bank. The BW Resources case is now before the Department of Justice. Two key pieces of economic reform legislation were signed into law: the Securities Regulation Code (which will improve investor protection) and a Safeguards Act (which is designed to protect domestic producers from import surges). Imports for May fell to a six month low, dampening hopes of a faster paced economic recovery.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

Contents

Stock Market

Market and Policy Developments

FOREX REPORT

The Philippine peso continued its weak performance this week, broadly in line with regional currencies; concern about domestic security issues did not help. However, a rally on Friday, July 21 helped raise the peso from its July 14 close of P44.52/US$ to end the week at P44.40/US$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
JUN 12	Markets Closed		
13	42.400	42.425	105.0
14	42.415	42.420	116.5
15	42.465	42.535	63.5
16	42.611	42.595	102.0
JUN 19	42.649	42.655	93.5
20	42.672	42.675	142.6
21	42.693	42.830	86.0
22	42.907	42.870	128.0
23	42.879	42.845	76.0
JUN 26	42.890	42.910	73.0
27	42.963	43.020	63.0
28	43.115	43.130	97.1
29	43.154	43.170	114.6
30	43.253	43.230	108.6
JUL 03	43.436	43.530	98.1
04	43.563	43.535	89.0
05	43.646	43.690	77.5
06	43.851	43.950	123.1

07	43.981	44.030	96.4
JUL 10	44.116	44.305	91.3
11	44.769	44.820	146.3
12	44.866	44.665	162.4
13	44.567	44.705	145.3
14	44.559	44.520	184.0
JUL 17	44.543	44.590	90.0
18	44.622	44.540	106.9
19	44.456	44.510	105.5
20	44.552	44.585	94.5
21	44.510	44.400	121.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

At the July 17 Treasury bill auction, concern over a growing budget deficit caused traders to continue to bid up interest rates. The Treasury Bureau made only partial awards in an effort to mitigate the rate increases. The interest rate on the 91-day bill was unchanged at 8.89%. Interest rates on 182-day bills rose 6.2 basis points to 9.963%, and rates on the 364-day bill rose 19.3 basis points to 10.989%. Similar results were seen at the July 18 auction of 10-year Treasury bonds. Again on a partial award, rates on the 10 year paper rose 37.5 basis points from the June auction to reach 14.5%.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
JUN 13	8.909	10.137	10.944
JUN 19	8.911	10.045	10.924
JUN 26	8.896	9.849	10.685
JUL 03	8.890	9.901	10.796
JUL 10	8.890	no sales	no sales

JUL 17	8.890	9.963	10.989

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
JUN 14	11.1229	10.00 - 13.625
JUN 22	11.1379	10.00 – 13.625
JUN 28	11.1806	9.50 - 13.625
JUL 05	11.1715	9.50 - 13.500
JUL 12	11.1707	9.50 - 13.500
JUL 20	11.1540	9.50 – 13.500

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Having broken through a support level of 1500 on July 20, the 33-share Philippine Stock Index (PHISIX) was down sharply for the week. In the Thursday session, only 10 issues gained against 96 losing issues (with 40 unchanged). Traders cited particular concerns that unrest in areas of Mindanao could spread to urban areas. From a July 14 close of 1553.89, the PHISIX sank 4.79% to close at 1479.46 on July 21.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
JUN 12	Markets Closed	
13	1522.15	950
14	1524.21	1468
15	1565.69	1200
16	1569.95	1225
JUN 19	1560.67	1001

20	1560.40	1121
21	1555.62	816
22	1545.90	1156
23	1542.97	966
JUN 26	1532.24	628
27	1529.37	925
28	1531.01	873
29	1532.74	767
30	1533.99	938
JUL 03	1535.65	397
04	1538.88	525
05	1539.92	587
06	1542.41	687
07	1550.60	882
JUL 10	1557.57	765
11	1563.08	738
12	1554.57	902
13	1561.52	1321
14	1553.89	641
JUL 17	1546.60	609
18	1528.85	704
19	1516.99	1,233
20	1489.47	832
21	1479.46	952

Source: Philippine Stock Exchange

FISCAL UPDATE

Estimates through June showed the national government's fiscal deficit at P47.7 billion, P14.3 billion wider than the programmed level. Expenditures were P3 billion under the programmed amount, but the national government missed its first semester revenue target by a wide margin (P17.9 billion). Over P14 billion of that revenue shortfall reflected lower-than-expected privatization receipts. While the Treasury and Bureau of Customs exceeded their respective targets, the Bureau of Internal Revenue (BIR) missed its collection goal by P7.6 billion.

Although the government remains hopeful, the P22 billion privatization goal for the year remains clouded with uncertainty despite the recent installment sale of the government's shares in Philippine National Bank (see below). Unforeseen defense-related spending for the Mindanao conflict is further complicating an already difficult juggling act for limited financial resources. Although the government may appeal, a recently released Supreme Court ruling -- which prohibits the national government from making unilateral cuts on legally mandated allotments to local government units (LGU's) -- may exert further fiscal pressures. The government had imposed a P10 billion "soft cut" on transfers to LGU's for the 2000 budget year, to be released in four tranches depending on fiscal performance. The government released P2.5 billion last April but had indicated in previous weeks that the P7.5 billion balance could become a "permanent" cut because of the government's deteriorating fiscal situation. As it is, the government is already working under a tight budget to slash its deficit this year to P62.5 billion (from P111.7 billion in 1999). The government is headed towards a familiar crossroad –- to allow the deficit to exceed the programmed ceiling or to cut further on "non-discretionary" yet essential spending (mainly maintenance and capital outlays).

NATIONAL GOVERNMENT FISCAL PERFORMANCE
(In Billion Pesos)

	January – June 2000 Program	Actual	Difference
Revenues	268.3	250.4	(17.9)
Tax	232.1	227.9	(4.2)
BIR	188.6	181.1	(7.6)
Customs	41.4	44.7	3.3
Non-Tax	36.1	21.9	(14.2)
Treasury	10.7	11.8	1.1
Privatization	15.5	1.4	(14.1)
Grants	0.1	0.6	0.5
Expenditures	253.2	247.2	(6.0)
Fiscal Surp/(Def)	(33.4)	(47.7)	(1.6)

Source: Dept. of Finance

GOVERNMENT SELLS PNB SHARES

Only one party –- Starbuck Equities (a holding firm incorporated in April 2000) -- tendered an offer for the government's 30.39% stake in PNB on the July 19 bidding deadline. Business dailies widely reported that Lucio Tan acquired the shares. Department of Finance (DOF) officials involved in the privatization told the Embassy that Lucio Tan's name does not appear in the list of incorporators but that official documents from the firm's legal counsel state that Starbuck Equities is "supported by" the Lucio Tan group of companies. This acquisition further increases Lucio Tan's stake in the commercial bank from the estimated 46% share he reportedly already holds (directly and by proxy).

In its offer, Starbuck Equities opted for the installment (versus cash payment) plan the government had offered to interested investors under its bidding guidelines. Priced at P100/share, the government requires a 10% down payment (P620 million), with the balance payable within two years and secured by a standby letter of credit. DOF officials told the Embassy that Starbuck Equities was considering converting to the cash payment option (which involves a lower sale price of P80/share). Privatization officials explained that bidding regulations allow the government to accept a sole bid or to enter into a negotiated sale after one failed bidding. The government declared a failed bidding on June 9, when there was only one qualified bidder for the joint Tan-government sale of shares in PNB. The PNB privatization committee also relaxed a previous guideline which required PNB' potential investors to include a financial entity partner –- a condition which had disqualified one other potential bidder on June 9.

Government officials and stock analysts view the sale as probably the best possible deal the government could have obtained under present circumstances. PNB shares have been trading at barely P60/share in the stock market. The government also would have faced significant dilution of its stake following a stock offer plan approved by

PNB’s board of directors (expected to be approved by stockholders in a special July 21 meeting). The government supports the stock offer plan as essential to rehabilitating the bank and to PNB’s meeting Bangko Sentral capital adequacy ratios. However, foreign minority stockholder Templeton Emerging Markets Fund (which currently owns 12.9% of PNB) continues to oppose the stock rights plan pending resolution of conflicting reports as far as Mr. Tan’s ownership/control is concerned. Templeton also cited conflict of interest, noting that some of Mr. Tan’s companies are also among PNB’s largest debtors.

SEC SUBMITS BW RESOURCES REPORT TO JUSTICE DEPARTMENT

On July 17 (Monday), the Securities and Exchange Commission (SEC) turned over its findings on the BW Resources stock manipulation case to the Department of Justice (DOJ). The SEC report implicated 39 individuals (including known presidential associate Dante Tan), eight stock brokerage firms and two corporations. The DOJ has issued subpoenas to the parties concerned to present their defense at an August 1 hearing. In press interviews, SEC Chair Lilia Bautista told reporters that the filing of the report did not preclude the inclusion of other persons who, upon further examination, would be found liable. She expressed hopes that the filing of the report for preliminary investigation by the DOJ would restore some credibility to the Philippine Stock Exchange and sagging stock market. While hopeful, analysts and observers note that the greater test of the government’s determination will be seeing this much-publicized case –- dubbed the biggest scandal in Philippine stock market history -- through the Philippine legal system.

LEGISLATIVE DEVELOPMENTS

Gearing up for his U.S. trip, President Estrada signed into law on July 19 two pieces of legislation which the Philippine Congress ratified during a two-day (July 17-18) special session:

SECURITIES REGULATION CODE

Republic Act (RA) 8799: “The Securities Regulation Code” of 2000 updates the “Revised Securities Act” of 1982. The more publicized provisions of RA 8799 reflect efforts to address weaknesses exposed by the BW Resources price manipulation scandal. Among other things, the new law:

a) Requires that exchanges be organized as stock corporations and directs the existing exchange to “demutualize” within one year of the law's enactment.

b) Sets limits to ownership of an exchange (no more than 5% for persons and 20% for an industry or business group) to prevent undue concentration and control.

c) Stipulates that brokers comprise the minority of an exchange’s board of directors and directs the existing exchange (currently dominated by member-brokers) to immediately comply with this requirement.

d) Legislates the responsibilities of securities groups and exchanges licensed by the SEC as self-regulatory organizations (SROs) and the powers of the SEC over them.

e) Tightens regulations on insider trading.

f) Segregates broker-dealer functions, except in specified circumstances.

g) Hikes penalties and charges to give teeth to securities market regulation and enforcement.

The new securities code is one of a number of envisioned reforms through which the government hopes to more effectively regulate, as well as develop, capital markets. Bills pending in Congress seek to beef up the Bangko Sentral’s supervisory powers through revisions to the Central Bank charter, as well as to rationalize financial sector taxes.

SAFEGUARD MEASURES

The President has also signed Republic Act No. 8800 or the Safeguard Measures Act, which will provide relief to domestic industries from import surges that could cause injury or threat of injury to domestic industries. The new law provides for general safeguards and special safeguard measures for agricultural products:

a) As a general safeguard, R.A. 8800 authorizes raising tariff rates to a level sufficient to prevent injury to the domestic industry, but limits the application of quantitative restrictions (QRs) to agricultural products. A general safeguard measure shall be terminated where the benefiting industry fails to show any improvement within the allowable period. In the application of any safeguard measure, nothing in the new measure shall impair the obligation of existing supply contracts.

b) Under the special safeguard measure, the Commissioner of Customs may impose an additional special safeguard duty on an agricultural product, if cumulative import volume in a given year exceeds its trigger volume or if the CIF import price is less than its trigger price. For agricultural products subject to minimum access volume (MAV) commitment, the special safeguard duty shall not apply to the volumes of the imported product under consideration.

While passing the safeguards act helps to clarify the measures the government may use to protect domestic industries, several of the tools envisioned in the new law may be inconsistent with Philippine commitments to the World Trade Organization. A more complete report on the mew act will follow septel.

MAY IMPORTS FALL TO A SIX-MONTH LOW

Philippine merchandise imports in May fell 3.8% from a year-ago level, pushing the trade surplus for the first five months of the year to $1.36 billion, the NSO reported. It was the lowest import figure for any month since November 1999. The country's main import, materials and accessories for the manufacture of electronics and computer peripherals, accounted for more than 20% of all imports, but its value of $492 million in May was down 10.3% year-on-year. Slower imports from the U.S. (down 10%) and Japan (down 8%), the country's major suppliers of electronic raw materials, explain the import decline. Partly offsetting these declines were increased imports from Asian neighbors, suppliers of electronic inputs also, led by Singapore and Korea.

A private sector securities economist has commented that the weakening peso may have hit imports in May, and exporters are possibly holding off on import of inputs waiting for the peso to settle. The P/$ exchange rate has dropped from an average 37.838 in May 1999 to 41.806 last May. Since Philippine exports are 85% manufactured products and 60% electronics, University of Asia and the Pacific (formerly CRC) economist Richard Supangan is optimistic imports would tend to increase for the second half of the year because the country would have to import the raw materials needed for its export commodities. Another private sector analyst has commented that the manufacturing activity was slowing down partly due to uncertainties caused by the insurgency problem in Mindanao.

PHILIPPINE FOREIGN TRADE PERFORMANCE
January - May 2000
(FOB value in Million US$)

	Exports	Imports	Balance Of Trade
Jan 1999	2,581	2,400	181
Feb	2,569	2,257	312
Mar	2,702	2,656	46
Apr	2,346	2,599	(253)
May	2,747	2,533	214
Jun	2,857	2,671	187
Jul	2,851	2,791	60
Aug	3,212	2,661	551
Sept	3,693	2,548	1,145
Oct	3,458	2,613	845
Nov	3,073	2,351	722
Dec	2,944	2,653	291
Jan 2000	2,717	2,651	65
Feb	2,902	2,483	419
Mar	2,988	2,742	247
Apr	2,668	2,528	140
May	2,931	2,437	494
Jan-May 1999	12,945	12,445	500
Jan-May 2000	14,206	12,841	1,365

Source: National Statistics Office